

July 31, 2023

Neel Metal Products Limited: Long-term rating upgraded to [ICRA]A (Stable); short-term rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non Fund-Based Facilities	252.00	197.00	[ICRA]A (Stable); Upgraded from [ICRA]A-(Stable)
Term Loans	165.66	136.00	[ICRA]A (Stable); Upgraded from [ICRA]A-(Stable)
Fund Based Limits	571.98	608.00	[ICRA]A (Stable)/[ICRA]A2+; Long term rating upgraded from [ICRA]A-(Stable); Short term rating reaffirmed; assigned for enhanced amount
Non Fund-Based Facilities	279.00	389.49	[ICRA]A (Stable)/[ICRA]A2+; Long term rating upgraded from [ICRA]A-(Stable); Short term rating reaffirmed; assigned for enhanced amount
Interchangeable Limits**	(345.00)	(415.00)	[ICRA]A (Stable)/[ICRA]A2+; Long term rating upgraded from [ICRA]A-(Stable); Short term rating reaffirmed; assigned for enhanced amount
Unallocated Limits	-	0.15	[ICRA]A (Stable)/[ICRA]A2+; Assigned
Total	1,268.64	1,330.64	

*Instrument details are provided in Annexure-I; **Sub-limit of other working capital facilities

Rationale

While arriving at the ratings for Neel Metal Products Limited (NMPL), ICRA has taken into consideration its consolidated financials, while excluding the entities engaged in solar energy projects, viz., JBM Renewables Private Limited, JBM Solar Energy Maharashtra Private Limited, JBM Solar Power Maharashtra Private Limited and JBM Solar Power Private Limited (together referred to as solar entities). The reasons for excluding these entities from the consolidated financial analysis are that— (a.) the cash flows from these entities cannot freely flow into NMPL, since it is subject to approval from the lenders and (b.) the entities are self-sufficient in meeting debt-servicing obligations

The rating action factors in NMPL's strong performance in FY2023 and expectation of a sustained improvement in the company's debt coverage indicators aided by improvement in operating profit and scheduled repayment of long-term debt. The company's total debt/ OPBDITA (at a consolidated entity level) was ~2.4 times in FY2023 (estimated) from a peak of 4.6 times in FY2020 supported by healthy accruals and cash flow from operations. Going forward, better earnings and improved cash flows are expected to aid in keeping dependence on incremental external borrowings for capex limited; accordingly, the company's debt coverage indicators are expected to gradually improve further over the medium term.

NMPL's standalone revenues grew by ~12% YoY to Rs. 5,275 crore in FY2023 (provisional financials), aided by healthy offtake from Jay Bharat Maruti Limited (JBML), commercial vehicle (CV) original equipment manufacturers (OEMs) and select two-wheeler (2W) OEMs. Aided by benefits of operating leverage, the company reported an improved OPBDITA of ~Rs. 402 crore in FY2023 vis-à-vis ~Rs. 380 crore in FY2022. The company is expected to continue to record a moderate to healthy growth in revenues over the medium term, aided by continuation of healthy relationships with various customers and expectation of moderate growth in the domestic automotive industry.

The ratings continue to factor in NMPL's healthy business risk profile as a key supplier of sheet-metal based components to multiple domestic OEMs, across automotive segments including 2W, three-wheeler (3W), passenger vehicle (PV) and light commercial vehicle (LCV) segments. Additionally, its diversified geographic footprint with manufacturing facilities in proximity

to customers, supports competitive positioning. In addition to the established business position with key OEMs, NMPL also acts as a steel service centre (SSC) for its Group companies, supplying cut-to-length and profiled sheet metal blanks to them as per requirements. Although this is a relatively low-margin business, the captive business from Group companies provides healthy revenue visibility with limited competition.

ICRA takes comfort from an improvement in the performance of NMPL's key investee companies, leading to improved cash flows for NMPL and lower support requirements. ICRA notes that the company has been recovering inter-corporate loans and upstreaming surplus cash from some investee companies in the form of dividends, which is expected to lend support to its liquidity position and return indicators. The company's investment in the solar entities have also started yielding returns as they have started paying dividends. ICRA also notes that NMPL has set up a 100% subsidiary in Dubai, Isuki Global FZCO (Isuki) in FY2023, which is expected to further aid the company's scale of operations and provide revenue diversification benefits over the medium term. Nevertheless, any significant debt-funded capex or investments would continue to be monitorable.

The ratings assigned remain constrained by material reliance on short-term borrowings, which exposes the company to refinancing risks. While the company has been taking steps to address this through incremental long-term borrowings, its ability to correct the asset-liability mismatch situation in a sustained manner would remain critical. ICRA continues to factor in favourably NMPL's status as one of the key JBM Group entities, which renders it some financial flexibility, and has helped it attain required lines of credit for meeting its requirements in the past; the same is expected to continue going forward as well.

The ratings also remain constrained by an expectation of continued support required by its wholly-owned subsidiary, JBM Global Technologies (JBM Global), for meeting its debt servicing obligations (with regards to servicing debt undertaken to fund the acquisition of 50% stake in Linde + Wiemann SE & Co. KG (L&W) in February 2019. The performance of L&W has improved over the past 15-18 months, and the company is expected to remain self-sufficient.

The Stable outlook on the long-term rating factors in ICRA's expectation that NMPL's healthy relationships with various customers and its diversified business profile would continue to support its revenue prospects, with profitability also expected to be largely maintained at current levels. The resulting cash accruals are likely to help the entity maintain its credit metrics.

Key rating drivers and their description

Credit strengths

Diversified revenue profile with presence across various automotive segments – NMPL enjoys a comfortable business profile with presence across multiple automotive segments, and limited dependence on a single customer. About 50-55% of its revenues from auto component business is driven by the 2W and 3W segments, ~10% by PVs and about ~5% by CVs, thereby lending diversity to its revenue streams. Additionally, its presence in multiple product segments, including wheel rims, exhaust systems, frames and painted bodies, etc, have supported its business prospects with OEMs.

Captive supplier for sheet metal blanks for JBM Group; healthy relationships with major domestic OEMs – Approximately 27.5% of the company's revenue (FY2023) is derived from Group companies, who procure cut-to-length and profiled sheet metal blanks from NMPL as per their requirements. The domestic steel processing industry is fragmented, with small and unorganised players accounting for a major portion of the market. However, NMPL faces limited competition with steady business from various Group companies. Furthermore, over the years, the company has forged strong relationships with most of its major domestic OEMs, including Honda Motorcycle and Scooter India Private Limited (HMSI), Bajaj Auto Limited (BAL), TVS, Maruti Suzuki India Limited (MSIL), Hero MotoCorp Limited (HMCL), ALL, and Tata Motors Limited (TML), among others, ensuring healthy revenue visibility.

Stake in L&W provides diversification benefits and access to new technology – The acquisition of L&W gave NMPL access to European markets as well as luxury PV OEMs, such as Daimler and the Volkswagen Group, among others. The acquisition also gave the entity access to new technologies, including expertise in the electric vehicle (EV) components segment. However, the management's ability to scale up the operations of L&W remains to be seen, given its limited experience in international markets.

Credit challenges

Sizeable debt-funded acquisition in Europe resulted in moderation in credit metrics; coverage metrics gradually improving

– The acquisition of 50% stake in L&W in February 2019 was funded through external borrowings, a major portion of which (Euro 45 million) was availed in NMPL's 100% subsidiary, JBM Global, under the standby letter of credit (SBLC) by NMPL. While the earlier expectation was that dividend inflows from L&W would suffice to service these debt obligations, the same is unlikely in the current scenario, primarily because of restrictions by lenders on upstreaming of funds till the external loans are repaid. Accordingly, NMPL is required to support the entity in meeting its debt obligations. Given that the repayment obligations are sizeable (Rs. 60-70 crore annually including interest payments), the enhanced funding requirements have so far been funded by additional borrowings; thereby constraining the company's credit metrics. Nevertheless, the company's debt coverage indicators are gradually improving aided by improvement in the profitability and scheduled repayments of long-term loans.

Exposure to new businesses and geographies through incremental investments, where management currently has limited experience

– Despite the diversification benefits offered by the L&W acquisition, it also exposes the company to additional risks, given the current limited experience of the Group in managing overseas operations. The management's ability to cope with the risks associated with such large scale of operations in international businesses across geographies, remains to be seen, as the Group's experience has been largely limited to the domestic automotive market.

Material reliance on short-term borrowings along with limited buffer in credit facilities

– NMPL has, over the years, been reliant on short-term borrowings for meeting its funding requirements, including investments, exposing the company to asset-liability mismatches. Accordingly, its liquidity position has remained moderate with high utilisation of working capital limits, and limited buffer available from unutilised lines; although this has improved to some extent in the last one year, the sustainability of the same needs to be seen.

Liquidity position: Adequate

NMPL's liquidity position is **adequate**, aided by expectation of net cash accruals of Rs. 300-400 crore p.a. and buffer available from unutilised lines of credit, including undrawn term loans of ~Rs. 65 crore as of July 2023. Furthermore, the company has been recovering surplus funds from various investee companies, which would also support its liquidity over the near to medium term. The company's near-term capex and investment outgo requirements remain moderate. Although the company has significant debt repayment obligations, both in India and overseas over the medium term (total repayments of ~Rs. 160-170 crore p.a. in FY2024-FY2025 at a consolidated level), ICRA expects the company to meet these through a combination of its free cash flows, available lines of credit and incremental loans to be raised. To this effect, NMPL's financial flexibility and its access to financial markets as one of the flagship entities of the JBM Group would offer support.

Rating sensitivities

Positive factors – The company's ratings could be upgraded in case of a sustained improvement in leverage and coverage indicators with Adjusted Total Debt/ OPBDITA¹ below 1.7 times. Additionally, improvement in its liquidity profile such that reliance on short-term borrowings is reduced through the infusion of long-term funds, and adequate liquidity buffer vis-à-vis peak debt servicing requirements is maintained, remain critical.

Negative factors – Significant deterioration in earnings or sustained deterioration in the financial risk profile, either triggered by a debt-funded capex or investments in Group entities, could lead to a downward rating revision. Sizeable incremental investments or incremental support to Group entities would be a key monitorable.

¹ Adjusted for financials of solar entities

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of NMPL. However, the solar entities in which it holds stake have been excluded from the consolidated financials as their cash flows remain restricted and ICRA does not expect NMPL to provide unconstrained financial support to them. The entities excluded are: JBM Renewables Private Limited, JBM Solar Energy Maharashtra Private Limited, JBM Solar Power Maharashtra Private Limited and JBM Solar Power Private Limited. The details of the consolidated entities can be found in Annexure II.

About the company

Incorporated in 1997, NMPL is a manufacturer of sheet metal components, catering to the domestic automotive market. The company supplies components such as wheel rims, exhaust systems and frames for 2Ws and welded and painted bodies for 3Ws, in addition to front-end structures for LCVs. The company's major customers for this business include HMSI, Mahindra & Mahindra Limited (M&M) and ALL. During FY2019, Neel Auto Private Limited (NAPL), a 100% subsidiary of NMPL, was merged with it. Post the merger, NMPL also supplies sheet metal and tubular components, primarily for 2Ws of BAL, TVS, HMSI and HMCL.

In addition to supplying sheet metal components to these OEMs, the company operates as a Steel Service Center (SSC) for its Group companies, including Jay Bharat Maruti Limited and JBM Auto Limited. The SSC business accounted for 32% of the company's sales in FY2023, and provides stability to its revenues, being a captive Group business.

In addition to manufacturing automotive components, NMPL has been an investment vehicle for the Group. Over the years, it has invested in renewable energy as well as waste management projects, in addition to investments in the automotive sector. During FY2019, the company acquired a 50% stake in an overseas entity, L&W, through a 100% subsidiary, JBM Global Technologies. As on March 31, 2023, the total investments in JVs, subsidiaries and other JBM Group companies amounted to Rs. 927.6 crore.

Key financial indicators (audited)

NMPL	Standalone			Consolidated ²	
	FY2021	FY2022	FY2023*	FY2021	FY2022
Operating income	3,271.0	4,720.6	5,275.4	3,421.0	5,147.8
PAT	98.2	200.6	233.1	100.8	215.3
OPBDIT/OI	8.7%	8.0%	7.6%	8.8%	8.8%
PAT/OI	3.0%	4.2%	4.4%	2.9%	4.2%
Total outside liabilities/Tangible net worth (times)	1.6	1.3	0.9	2.3	1.8
Total debt/OPBDIT (times)	2.9	2.0	2.0	4.3	2.6
Interest coverage (times)	3.7	5.7	5.8	3.5	5.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Source: Company, ICRA Research; *Provisional numbers; All calculations are as per ICRA Research

² ICRA Estimated: Excludes the solar entities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2024)			Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Feb 28, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Jul 31, 2023	Apr 4, 2022	Oct 19, 2021*	Apr 1, 2021	Jul 21, 2020
1	Non Fund-Based Facilities (SBLC)	Long term	197.00	197.00	[ICRA]A (Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB + (Stable)	[ICRA]BBB+ (Negative)
2	Term Loans	Long term	136.00	111.00	[ICRA]A (Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB + (Stable)	[ICRA]BBB+ (Negative)
3	Fund Based Limits	Long term and short term	608.00	-	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB + (Stable)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA] A2
4	Non Fund-Based Facilities	Long term and short term	389.49	-	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB + (Stable)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA] A2
5	Interchangeable Limits**	Long term and short term	(415.00)	-	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB + (Stable)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2
6	Unallocated Limits	Long term and short term	0.15	-	[ICRA]A (Stable)/ [ICRA]A2+	-	-	[ICRA]BBB + (Stable)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2
7	Commercial Paper Programme	Short term	-	-	-	-	[ICRA]A2 withdrawn	[ICRA]A2	[ICRA]A2

*An update on the details of lender facilities was published on September 6, 2021

**Sublimit of other working capital facilities

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non Fund-Based Facilities	Simple
Term Loans	Simple
Fund Based Limits- Cash Credit	Simple
Non Fund-Based Facilities	Simple
Interchangeable Limits**	Simple

Unallocated Limits

Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	FY2016	NA	FY2025	36.00	[ICRA]A (Stable)
NA	Term Loan-II	FY2021	NA	FY2026	50.00	[ICRA]A (Stable)
NA	Term Loan-III	FY2023	NA	FY2029	50.00	[ICRA]A (Stable)
NA	Non Fund-Based Facilities	NA	NA	NA	197.00	[ICRA]A (Stable)
NA	Fund Based Limits	NA	NA	NA	608.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	Non Fund-Based Facilities	NA	NA	NA	389.49	[ICRA]A (Stable)/ [ICRA]A2+
NA	Interchangeable Limits**	NA	NA	NA	(415.00)	[ICRA]A (Stable)/ [ICRA]A2+
NA	Unallocated Limits	NA	NA	NA	0.15	[ICRA]A (Stable)/ [ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	NMPL Ownership	Consolidation Approach
JBK Motors Limited*	90.91%	Full Consolidation
JBK Green Energy Systems Private Limited	49.00%	Equity Method
JBK Cadmium Private Limited	100.00%	Full Consolidation
JBK Environment Management Private Limited	99.20%	Full Consolidation
JBK Global Technologies GMBH	100.00%	Full Consolidation
ANS Steel Tubes Limited	100.00%	Full Consolidation
Green Land Technobuilders Private Limited	60.00%	Full Consolidation
FJM Cylinders Private Limited	99.00%	Full Consolidation
Neel Metal Fanalca Environment Management Private Limited	51.00%	Equity Method
JBK Exhaust Systems Private Limited	100.00%	Full Consolidation
JBK Kanemitsu Pulleys Private Limited	51.00%	Full Consolidation
Arcelormital Neel Tailored Blanks Private Limited	50.00%	Equity Method
Rose Engineered Products Private Limited	50.00%	Equity Method
Augen Technologies Software Solution Private Limited	50.10%	Equity Method
Lean Automation Equipments Private Limited	60.00%	Equity Method
Linde+Weimann SE & Co. KG*	50.00%	Equity Method
Isuki Global FZCO	100.00%	Full Consolidation
Kian Ventures FZCO*	51.00%	Full Consolidation
Kian international*	95.00%	Full Consolidation
Horizon Technologies*	45.00%	Equity Method

Source: Company data; as on March 31, 2023

Note: ICRA has considered the consolidated financials of the parent (NMPL), its subsidiaries and associates (excluding the solar entities) while assigning the ratings.

*step down subsidiary/ JV

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